Advice To Bankers of 1863

IN DECEMBER, 1863, Hugh McCulloch, then Comptroller of the Currency and later Secretary of the Treasury, addressed a letter to all national banks. Those institutions had only lately been organized and their executives, one must assume, were more in need of the Comptroller's sage admonitions than bankers ever have been since. Here are some of his paragraphs:

"Let no loans be made that are not secured beyond a reasonable contingency. Do nothing to foster and encourage speculation. Give facilities only to legitimate and prudent transactions. Make your discounts on as short time as the business of your customers will permit, and insist upon the payment of all paper at maturity, no matter whether you need the money or not. Never renew a note or bill merely because you may not know where to place the money with equal advantage if the paper is paid. In no other way can you properly control your discount line, or make it at all times reliable.

"Distribute your loans rather than concentrate them in a few hands. Large loans to a single individual or firm, although sometimes proper and necessary, are generally injudicious, and frequently unsafe. Large borrowers are apt to control the bank; and when this is the relation between a bank and its customers, it is not difficult to decide which in the end will suffer. Every dollar that a bank loans above its capital and surplus it owes for, and its managers are therefore under the strongest obligations to its creditors, as well as to its stockholders, to keep its discounts constantly under its control.

"Treat your customers liberally, bearing in mind the fact that a bank prospers as its customers prosper, but never permit them to dictate your policy.

"If you doubt the propriety of discounting an offering, give the bank the benefit of the doubt and decline it; never make a discount if you doubt the propriety of doing it. If you have reason to distrust the integrity of a customer, close his account. Never deal with a rascal under the impression that you can prevent him from cheating you. The risk in such cases is greater than the profits.****

"Pay your officers such salaries as will enable them to live comfortably and respectably without stealing; and require of them their entire services. If an officer lives beyond his income, dismiss him, even if his excess of expenditures can be explained consistently with his integrity, still dismiss him. Extravagance, if not a crime, very naturally leads to crime. A man cannot be a safe officer of a bank who spends more than he earns.

"The capital of a bank should be a reality, not a fiction; and it should be owned by those who have money to lend, and not by borrowers. The Comptroller wil endeavor to prevent, by all means within his control, the creation of a nominal capital by national banks, by the use of their circulation, or any other artificial means; and in his efforts to do this, he confidently expects the co-operation of all the well-managed banks.****

"Pursue a straightforward, upright, legitimate banking business. Never be tempted by the prospect of large returns to do anything but what may be properly done under the National Currency Act. 'Splendid financiering' is not legitimate banking, and 'splendid financiers' in banking are generally either humbugs or rascals."

It remains to be added only that, interesting as Mr. McCulloch's ideas are now, they might have been even more so four or five years ago, and that they are no less significant for bank borrowers and would-be borrowers than for bank officers.

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